

CHESAPEAKE UTILITIES CORPORATION  
DELAWARE DIVISION  
PSC DOCKET NO. 07-186

MAIN EXTENSION POLICIES

1. Type of Economic Analysis

The Company will utilize a six times net revenue test ( annual base tariff revenue excluding fuel costs) in the economic analysis of main extensions of less than 500 feet in length to serve new residential developments, existing residential developments, and commercial and industrial main extensions. The Company will utilize an Internal Rate of Return Model ("IRRM") in the economic analysis of main extensions of greater than 500 feet to serve new residential developments.

2. Parameters of the Net Revenue Test

A. Number of Customers

For either main extensions of less than 500 feet or main extensions to serve commercial and industrial customers, the number of customers to be included in the economic analysis is the number of customers estimated to be connected during the first year. For main extensions to serve existing residential developments, the number of customers to be included in the economic analysis is the number of customers intending to convert to natural gas service within ninety (90) days and who have signed an application for natural gas service with the Company.

3. Parameters of the IRRM

A. Number of Customers

The estimated number of residential heating customers will be based on the number of lots in a new residential subdivision that have been approved for development by the appropriate local, county, or state government authority responsible for approving such residential subdivision projects. At its discretion, the Company may include more conservative estimates by including in the model less than the total number of approved lots in such residential subdivision. The estimated number of customers will be phased-in over periods of no less than the following:

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Potential Customers	Buildout Period
0 – 50	1 year
51 – 100	2 years
101 – 200	3 years
201 – 400	4 years
401 – 800	5 years
801 +	6 years

When more than one residential subdivision has been approved for development and can be reached by the Company through a common distribution approach main installation, the Company shall perform a separate analysis for each subdivision. However, under such circumstances, the cost of the distribution approach main installation shall be allocated, for IRRM purposes, to each subdivision based on the size of the subdivision.

**B. Annual Non-Fuel Revenue Per Customer**

The estimated annual average non-fuel revenue per residential customer will be based on the margin per customer approved by the Commission in PSC Docket No. 07-186, depending upon the estimated rate schedule for the customers in the residential subdivision(s).

**C. Distribution Main Installation**

The estimated construction costs relative to the distribution main line extension and the new residential development main will be determined based upon the specific cost estimates for these particular mains on a project-by-project basis. The entire cost of the distribution approach main for a project will be included in the first year of the project; however the development main for a given residential subdivision(s) will be included consistent with the Company's estimate of the timing of the expense.

**D. Service Installation and Meter Installation**

The estimated construction costs relative to the installation of the service line and the meter set will be established based upon the Company's current cost of an average size service line and meter set for a typical residential service. The Company will provide the Commission Staff with any updated cost information

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relative to a typical service installation and meter installation to be used in the IRRM by March 1 of each year.

E. Operations and Maintenance Expenses

The estimated operations and maintenance expenses contained in the IRRM for a particular main line extension project will be based on a 3-year average of variable costs on a per customer basis for the most recent three calendar years unless the 3-year average is inconsistent with the particular extension project, in which case the most current year variable cost per customer will be utilized. The Company will provide the Commission Staff with any updated cost information relative to the operations and maintenance expenses per customer to be used in the IRRM by March 1 of each year.

F. Book Depreciation Life for Mains

The book depreciation life for mains for proposes of the IRRM will be based on the most recent Commission approved depreciation rate at the time of the economic analysis.

G. Capital Structure

The capital structure and associated rate of return for a given capital project will be based on the Company's capital structure, cost of equity capital, and the cost of long term debt approved in the Company's most recent base rate proceeding before the Commission.